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ABSTRACT

The Full Employment and Balanced Growth Act of 1976, S-50, the Humphrey-Hawkins bill, is an attempt to focus the nation's attention and energy on the problem of attaining full employment. As a matter of law the nation would be committed to achieving an adult unemployment rate of 3% within four years. If those charged with the development and implementation of fiscal and monetary policy--the President, the House and Senate Budget Committees, and the Federal Reserve Board--did not think the full employment goal feasible or wise, they would have to say so, explain why, and develop ameliorative measures. Recognizing that wishing full employment will not suffice, the Act provides for micro-employment programs and for policies that would hopefully allow the application of greater monetary and fiscal stimulus with less inflation. All else failing to achieve the 3% unemployment rate target, S-50 provides for public job creation, presumably on a large scale if need be. S-50 does not deal with the issue of why we face the high unemployment dilemma to begin with, nor does it provide a convincing mechanism for dealing with the inflation that could result from its own provisions. In forcing us to debate the issues, particularly the inflation-unemployment trade-off within our conventional economic policy, S-50 provides opportunity for explicit analysis of both the benefits and costs of full employment. Out of such debate, needed changes in the bill can be attended to. (WL)

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THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1976:

AN ANALYSIS AND EVALUATION

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ABSTRACT

Given the high levels of joblessness in this country during the past few years, it is not surprising that debate rages regarding how to measure and, more significantly, what to do about unemployment. In particular, the role of public job creation is a major point of contention. A focal point of the debate is certain to be the proposed legislation titled "Full Employment and Balanced Growth Act of 1976," S-50, the so-called Humphrey-Hawkins bill. This paper critically examines the act, the purpose being to highlight problem areas that merit particular attention as debate proceeds.

The Full Employment and Balanced Growth
Act of 1976: An Analysis and Evaluation

During the first quarter of 1976 over 7 million Americans were jobless, another 3.6 million were working part time but would have preferred full-time work, and nearly a million "discouraged workers" had dropped out of the labor force. Few would argue that these statistics do not indicate a serious social and economic problem, although some would quickly add two things: (1) these figures represent cyclical highs and conditions will improve as the current recovery proceeds, and (2) since many of the unemployed are spouses or children of employed family heads, their unemployment does not really comprise a serious social problem. These demurs notwithstanding, there is general agreement that demand-deficiency unemployment--that which exists because of a job shortage, no matter what the stage of the business cycle--has risen to, and is expected to remain at, levels that are at best undesirable.

It is thus not surprising that debate rages regarding how to measure, and more significantly, what to do about unemployment. In particular, the role of public job creation is a major point of contention. A focal point of the debate is certain to be the proposed legislation titled "Full Employment and Balanced Growth Act of 1976," S-50, the so-called Humphrey-Hawkins bill. In this paper I shall summarize S-50, examine critically how it would deal with unemployment, and attempt a judgement on its overall merit. At the outset I shall note some other current developments that will serve to place the discussion of the Full Employment and Balanced Growth Act in perspective.

Many readers will be aware that the current version of S-50 (released to the public on March 12, 1976) had a predecessor, also co-sponsored by Senator Humphrey and Congressman Hawkins, known as S-50 and HR-50. That version, introduced in 1975, was called "Equal Opportunity and Full Employment Act of 1975." Of interest as we proceed will be certain of the major differences between the two bills. These differences indicate both the inherent wisdom of the legislative process and the leveling effect of consensus politics. To facilitate comparison, I shall refer to the current bill as S-50 and to its predecessor as the "previous version."

The Context

Whether and how to achieve full employment is an old issue. But today there are straws in the wind that may be signaling a shift in the way the problem is perceived and in the ways people wish to deal with it. In addition to S-50 (which will be examined below), I see three other such "straws".

(1) Redefining Unemployment

Fifteen years ago, in the face of mounting unemployment rates following the three recessions of the 1950s and in the face of stubborn structural unemployment, President John F. Kennedy appointed a committee to appraise the nation's employment and unemployment statistics. Not surprisingly, today we hear calls for a similar study group, and for much the same reason--people don't like the labor market situation and seek to have it measured the way they see it.

But, apparently those who would change the way we measure unemployment do not all see the problem in exactly the same way. Currently, the Bureau of Labor Statistics counts as unemployed anyone over the age of 16 who is out of work and is actively seeking employment (or awaiting recall to an old job or to report to a new one). At present there are calls to count in addition, those who are discouraged workers and (with a weight of one-half) those who are involuntarily working part time. At current unemployment levels these changes would raise the unemployment rate (unemployment divided by labor force) from 7.6 percent to 9.8 percent. Others, however, suggest not making these additions and not counting as unemployed many of those we do count today. Suggestions include deleting those unemployed for fifteen weeks or longer and non-heads-of-households. These changes would reduce the rate to 3 percent and 5.1 percent, respectively.

The thrust of the "raisers" and "lowerers" is clear. The former want to change the rate to more accurately reflect the inability of the economy to provide jobs for all those who want them, without being very stringent about determining the conditions under which someone would or should actually accept a job. As we shall see, this is a very important part of the issue. The "lowerers," on the other hand, wish the unemployment rate to measure some combination of hardship resulting from unemployment and willingness to work at a less then perfect job (as seen by the unemployed worker).

Clarence Long's statement of thirty-three years ago remains true: "It is not often realized that the conceptual limits of unemployment are not definite boundaries, but rather are battlefields over which economic and social philosophies are fighting."

The debates over full employment and public employment's role in attaining it will, and should, mirror this disagreement over how to define unemployment; for those whose unemployment concerns us enough to count, are likely to be those whose employment we strive to ensure.

(2) The "New" Unemployment

Not all economists and politicians view the current economic situation with equal amounts of concern. Basically, two arguments are made by those who prefer not to move rapidly toward larger-scale public job creation, let alone to some form of job guarantee. First, it is argued that much of current unemployment is voluntary and/or not hardship-producing. We saw this point in the discussion of redefining unemployment. The growth of transfer payments (unemployment insurance, welfare, food stamps) and the increase in labor-force participation by nonfamily heads, has created a situation that causes some potential earners to take an Unemployment Insurance/Food Stamp subsidized "vacation" when the job market becomes slack. Or perhaps they simply are able to be more choosy when searching for a job. In either case, the unemployment rate will still be higher as a result, but the harsh costs of unemployment that are a legitimate concern are absent, or at least mitigated. As yet, there is no firm evidence on the impact of greatly extended Unemployment Insurance (UI)--to 65 weeks for many--and more generous public assistance benefits on the duration of unemployment. Presumably strong evidence of a large effect could influence policy, but this is unlikely to be available soon. In the interim, it is not

likely that proposals to reduce assistance to the unemployed will gain much support, although changes in the form of that assistance are possible (e.g., the long-term unemployed could be made eligible for cash public assistance instead of extended UI).

A second and overlapping observation on the current labor market is that the U.S. economy is producing jobs as well as ever, but that the influx of secondary, frequently part-time workers, has inflated the unemployment count. It is certainly true that the employment-to-population ratio, a favorite statistic of those who take this position, is currently at or above its long-term trend. What may not follow is that as a result we should not worry so over those who do not have jobs.

A related perspective on the jobs issue is gotten by asking whether anyone would oppose full employment. Assuming it were costless, of course no one would. But it is not and people differ in the cost they are willing to risk. The cost of higher employment is generally reckoned in terms of higher inflation. Those who are willing to move slowly now, even at the cost of higher unemployment, would no doubt argue that they care just as much about full employment as anyone else. The way to attain it, however, is to wring inflation from the system and move to a stable, sustainable growth path. If this takes longer, this is unfortunate but justifiable since in the long run everyone will be better off. They may, in addition, be sustained by the knowledge that transfers to the unemployed are, in their view, generous. In any case, it would appear that neither side has a monopoly on supporting evidence or humanity.

(3) The Burns' Proposal

Senator Humphrey is not the only person who recognizes that public employment may have an important role to play in the government's battle against inflation and unemployment. He would, no doubt, agree with Federal Reserve Chairman Arthur F. Burns that involuntary unemployment should be eliminated. The two would, no doubt, disagree on the definition of involuntary unemployment. Dr. Burns suggests there may be no way of achieving full employment (which he does not define) short of making government the employer of last resort. He would offer jobs of the public service variety--schools, parks, hospitals, etc.--to anyone willing to take one at a wage "somewhat below" the federal minimum wage, currently $2.30 per hour.

The point to note here is that one so importantly charged with controling the unemployment rate has evidently concluded that some sort of job guarantee is required. Now the debate should be broadened to include as well the question of what sort of job guarantee is acceptable. Dr. Burns wishes to eliminate involuntary unemployment. Let us define voluntary unemployment as existing when someone continues to search for a better job at a higher wage rather than accept a current job offer. Who is to determine at what differential, between wage offer and wage desire, one must accept a preferred job? Dr. Burns' answer is that no matter what one's previous wage, if an unemployed person won't take a job at somewhat below the minimum, he is voluntarily unemployed. This is apt to be a controversial point for both politicians and economists. Some politicians will have

a problem in voting for a job guarantee that at year-round, full-time work (2000 hours per year), yields an income of less than 80 percent of the poverty line (for a family of four). Economists will be asked to put a number on frictional unemployment, the type that is supposed to be acceptable, evidencing orderly job changing in a dynamic economy, but has been devilishly difficult to define.

The Full Employment and Balanced Growth Act of 1976, S-50

Many of the specifics of S-50 are interesting and important. But its message exceeds the sum of its parts and it is worthwhile to be clear on this at the outset. The Full Employment and Balanced Growth Act of 1976 (hereafter simply "Act") says that full employment cannot be attained unless the nation commits itself to that goal, establishes machinery to get from here to there, and, perhaps most significantly, places responsibility for doing so on identifiable institutions. As much as anything else, S-50 is a planning bill. There is no indication that anything like a centrally-planned economy is anticipated or desired; indeed, the bill sees itself as an attempt to save capitalism. The goal, it would appear, is to be explicit about economic policy and its relation to the fulfillment of a broad range of social goals. To this end, the President must submit to the Congress within ninety days of enactment, a Full Employment and Balanced Growth Plan. The plan is supposed to set forth goals, priorities, resources, and be explicit about shortages and the like.

The bill's emphasis on full employment as contrasted with the unambiguous (if undeliverable) job guarantee of its predecessor, is itself noteworthy. S-50 ammends the Employment Act of 1946. That Act, it is by now well known, did not include the word "full" before "employment". In fact, the deletion of "full" was part of a political compromise that insured passage of the 1946 Act which committed the federal government to concern itself with employment, output, and purchasing power and established the Council of Economic Advisors. S-50 now adds the word "full" back into the Act. But unlike its predecessor, S-50 does not unambiguously establish the right to a job. To be sure, S-50 clearly states:

> The Congress declares and establishes the right of all adult Americans able, willing, and seeking work to opportunities for useful paid employment at fair rates of compensation (Sec. 102(a)).

However, no remedy is given for failure to fulfill this obligation. In contrast, the previous version made provisions for an aggrieved jobseeker to sue in U.S. District Court. This change, together with others discussed below, insures that S-50 will not be treated simply as a public employment bill, as so frequently was its predecessor.

Rather than attempt a line-by-line analysis of S-50, I will discuss and comment upon the bill's main features.

Numerical Goals

The Act requires that numerical goals be set for employment, production, and purchasing power. Bureaucrats and politicans dislike such specificity because it makes failure readily apparent, and for good reason, since reaching any target in a $1.3 trillion open economy is unlikely. Nevertheless, if the politicans can avoid witch hunts over

missed goals, some target-setting is likely to be a healthy endeavor for it will force policy makers, elected and appointed, to be honest with their constituents as well as with themselves.

The only numerical goal in the Act is for a 3 percent adult unemployment rate to be achieved within four years. This in itself constitutes a shift from the previous version that allowed only 18 months to fulfill the goal.

The term "adult unemployment rate" adds an unnecessary note of ambiguity to the Act. Apparently, the ambiguity is intentional and serves to finesse a minor dispute among the drafters regarding whether the unemployment rate target should be "softened" to exclude teenagers. It is anticipated that the Senate version will define an adult as someone eighteen years of age and over. Evidently, the House sponsors would prefer to define the target in terms of the official Bureau of Labor Statistics unemployment rate, which includes everyone over 16 years of age. The difference is not trivial. Since World War II, the BLS rate has averaged 4.76 percent, while the eighteen-and-over unemployment rate has averaged 4.45 percent, a difference of three-tenths of a point. Comparable figures for the 1970-1974 period, which may be more revelant, are 5.38 percent and 4.86 percent, for a difference, or better a "savings" in target, of half a point. That is, when the eighteen-and-over rate is 3 percent the BLS-reported rate would be 3.5 percent, which is easier to achieve. This simply reflects the fact that teenagers have higher unemployment rates than adults. At current labor force levels this one-half of a point amounts to somewhat less than one-half a million jobs. It is apparent that those who favor dropping sixteen-and seventeen-year olds from the labor force for purposes of setting a full employment unemployment

rate target must be concerned about the difficulty of achieving such a relatively low rate and also aware of the nature of many teenagers' tenuous attachment to the labor force. Having gone this far, it might be argued that all teenagers should be dropped (not from social concern!) and a twenty-and-over rate calculated. Over the postwar period, this would result in a 7/10 of a point saving and a full point, or one million jobs, using data from the 1970-1974 period.[2] In the name of simplicity and realism, it might be best to use the official BLS unemployment rate together with a 4 percent target. Since, as will be suggested below, even the 4 percent target is sufficiently below the projected track of the economy, the level of the target is relatively unimportant. The direction for policy, which is important, would remain unchanged.

Accountability

S-50 requires the President to plan for full employment. If he does not believe the legislated target to be feasible, he must state why and present the ameliorative plans of his administration. The Federal Reserve System must report to the Congress on its goals and targets and provide an analysis of their relation to the President's plan. Should there be any substantial variance between the two, a full justification is to be provided. Ultimately, any inconsistencies between the Administration's and the Fed's views, and presumably between either or both of these and those of the Congress, will somehow be reconciled by the Congress. The bill is not very explicit on how this reconciliation would proceed and does not deal with the implicit issue of the shift in the degree of independence of the Fed.

Similar responsibility is placed on the House and Senate Budget Committees. The Joint Economic Committee will become the clearinghouse for the process of reconciliation and ultimate economic policy-making. The need for further analysis capability to support this Congressional assumption of equal (if not senior) partner role in economic policy-making is recognized and a Division of Full Employment and Balanced Growth is established in the Congressional Budget Office (CBO). That new group would be headed by a Deputy Director of the CBO. This is yet another example of the Act's leaving no stone unturned in its attempt to make full employment a primary focus of policy-making and to place explicit responsibility on particular institutions and even job slots.

It may be argued that while S-50 provides a process to facilitate accountability, it contains no way to insure it. The President, for example, could frustrate the goals by argument and dilatory tactic. My view is that such behavior is highly unlikely. The bill will not pass unless there is strong public support to begin with and obvious flouting would not wash. But more importantly, the President would have to say why his budget did not meet the goals. No doubt the debate would be loud, perhaps even clear. Eventually, the people would catch the drift of the argument. At some point they could decide how much risk to incur in order to lower unemployment.

Fiscal and Monetary Policy

S-50 is trying to right the American economic system, not change it. Characteristically, therefore, the standard macroeconomic tools of fiscal and monetary policy remain in the forefront of economic

policy-making. But presumably they would be used more aggressively than at present. Here the Act becomes a bit fuzzy. As noted above, both the President and the Federal Reserve must report on the consistency of their policies with the goals of the Act (principally the unemployment rate target). The President, in this context, must report on the necessary scope of "supplementary employment policies" (see below) needed to fill any gaps after the effects of macroeconomic policies are accounted for. The Act then states

> Whenever the economy is operating at full production or employment, or subjected to excessive overall strain, the general principle to be followed is that priority expenditures... shall not in general be reduced, allowing for some variation for countercyclical purposes, so long as it is feasible to reduce relatively less important expenditures, or to... [use tax policy] to... restrain excessive economic activity and inflation when total demand threatens to exceed the Nation's capabilities at full employment... (Sec. 106 (a), referencing new sections of the Employment Act of 1946: Sec. 3B (a) (1) and (2).)

Suppose it is not possible to reduce low-priority expenditure nor to use tax policy to reduce economic activity. Of course the question may be objected to on the ground that it is foolish; spending can always be reduced and taxes can always be increased if the President and the Congress so desire. Now, if in a period of excess aggregate demand, and say, 4.5 percent adult unemployment, contractionary fiscal (and/or monetary) policy (ies) were to be undertaken, the unemployment rate would rise. The Act does not explicitly provide for this situation--indeed, its raison d'etre is to provide for its avoidance--but the clear intent is for the supplementary employment programs to pick up the slack. Inevitably, this is apt to mean more public employment, which may or may not be a good idea, but which must be recognized.

The reason for this result is not difficult to find. S-50 strives for full employment. But it has not yet solved the problems that keep us from that great goal. That is, for reasons that the Act recognizes, and no doubt for others as well, a 3 percent unemployment rate now appears to be beyond our reach if we also desire a stable or at least nonaccelerating price level. So unless S-50 can change the underlying economic structure, it must face the same macro-policy trade-offs that have dogged us recently. In this regard S-50 is in the uncomfortable position of providing the "solution" to the symptom (unemployment), without being certain of having dealt with the cause (perhaps unknown).

Anti-Inflation Policy

Any law that seeks 3 percent unemployment by 1980 must be mindful of inflation. S-50 has a section on anti-inflation policy, but whether or not it would be sufficient is unfortunately and perhaps inevitably, doubtful. This brief section enumerates the following policies that the Economic Report of the President shall discuss: (1) information systems to monitor and analyze inflationary trends in sectors of the economy so that bottlenecks can be spotted; (2) aggregate monetary and fiscal policy in a full employment economy; (3) supply-increasing activities; (4) export-licensing mechanisms for food and other critical materials, and stockpiles to meet emergencies; (5) productivity-increasing activities; (6) antitrust recommendations; and (7) "recommendations for administrative and legislative actions to promote reasonable price stability if situations develop that seriously threaten national price stability" (Sec. 107 (a) (7)).

Policies (1) thru (6) are of course familiar, but bear repeating and serious implementation. The Nobel Prize winning answer is to the question: By how much can these policies reduce the rate of inflation at a given unemployment rate?

Policy (7) appears to be a lengthy euphemism for guideposts and/or controls--that is, for an incomes policy. The potential efficacy of policies (1) thru (6) is of vital importance because it tells how necessary an incomes policy is likely to be. Indeed it can be argued that an incomes policy of some sort should be in place before the expansionary monetary and fiscal policies envisioned by the Act are implemented. As the legislative debate over S-50 proceeds, much more needs to be said on this question.

Focusing the nation's attention and energy on micropolicies that could ease the inflation-unemployment trade-off would itself be a first order contribution to national welfare. As S-50 is revised, this area is seriously in need of strengthening. It is perhaps an accurate index of our current problems that we know precious little about how to implement the anti-inflation policies enumerated in S-50 and have few additions to that list.

Micro-Employment Policy

> It is the purpose of [Title II of the Act] to establish supplementary employment policies to close the employment gap, if one should exist, between the levels of employment achieved through aggregate monetary and fiscal policy and the employment goals established [by this Act]. Accordingly, this title establishes a system of comprehensive and flexible employment policies to create jobs in both the private and public sectors of the economy that encourages the optimum contribution of the private sector and State and local governments toward the achievement of the goals and purposes of this Act... (Sec. 201).

Title II of S-50 provides for countercyclical, structural, and youth employment policies and for the integration of income maintenance and employment policies. This last subject will be discussed below. If traditional policies, operating within a maximum inflation constraint, leave unemployment above target levels, the following, among others, shall be "considered": countercyclical use of public service employment; accelerated public works; countercyclical grants to state and local governments; and levels and duration of unemployment insurance. Inclusion of the last suggests that unemployment insurance is not to be totally replaced by job provision, but the role of UI remains unclear.

The Act recognizes that even at cyclical peaks, unemployment may be too high in certain regions or industries and among the younger population. Indeed, reducing such structural imbalances would be a way to ease the inflation-unemployment trade-off.

The reader may be forgiven for wondering, if he hasn't heard all of this before. He has. Title II is essentially a reincarnation of many of the ideas and programs contained in the Area Redevelopment Act of 1961, the Manpower Development and Training Act of 1962, the Economic Opportunity Act of 1964, and the Model Cities Act of 1965. Because something was tried once does not mean it should be forever rejected. Moreover, a broad-front attack on all potential causes of unemployment and inflation is central to S-50's philosophy and vital to its success. But just as the old should not be rejected out of hand, it should not be blindly accepted. In many respects the experience of the 1960s was not sufficiently favorable to warrant simple reintroduction of the New Frontier-Great Society programs. Unfortunately, S-50 will not help federal administrators in deciding how to reimplement ARA, MDTA, and the rest.

Job Creation

If, after the effects of macro- and micro-employment policies are accounted for, adult Americans who make a serious effort to find employment cannot do so, the task of providing jobs will fall to a new Full Employment Office within the Labor Department. Section 206 (d) states

> Insofar as adult Americans...are not provided with job opportunities...under this Act, such opportunities should be provided by the President through reservoirs of federally operated public employment projects and private nonprofit employment projects....[These projects] shall be phased in by the President...in order to achieve a rate of unemployment not in excess of 3 percentum....

It is clear that while it may not wish to be a public employment bill, S-50 certainly has the potential to become one. Suppose, for example, that the economy showed signs of excessive strain with an adult unemployment rate of 5 percent, account having been taken of the micro-employment policies. The burden of job creation would then fall to the Full Employment Office. But job creation is not costless and would have to be financed by, first, either tax increases or reductions in spending elsewhere, either of which would reduce employment, or second, deficit spending, which would add yet more strain to the economy. Again we find ourselves between a rock and a hard place. If we truly cannot achieve full employment because it implies unacceptable rates of price increase, then no collection of demand-stimulating activities will alter the situation. Indeed, they would only exacerbate it. In addition, any public job creation that was not inflationary could involve a substitution of some public for some private employment. At present we have almost no information on how great this substitution might be.

An interesting feature of the Act is its provision for income-testing eligibility for public employment job slots. For one thing, this suggests that the Act's framers did not really anticipate supplying jobs to all comers. Secondly, those concerned about targeting job creation "benefits" on low-income groups will applaud these provisions. Duration of unemployment and expiration of unemployment benefits are also to be taken into account in setting the job priority queue.

One potential difficulty in giving first priority to those with the lowest income is that it would reverse the normal structure of the job queue in this country. Generally, middle- and lower-middle class workers become employed or called-back from layoffs first. Changing this pattern as part of a large-scale job-creation program has perhaps the greatest scope for assisting the potentially employable poor and for reducing income inequality (below the median) of any policy proposal extant. For the same reason, this proposal also runs the risk of creating substantial social discord. In particular, the cooperation (or better acquiescance) of labor unions in its implementation would seem important, if not essential.

Income Maintenance and Employment Policy

Income maintenance and employment programs are to be integrated and employment is to be substituted for income maintenance "...to the maximum extent feasible, taking into account the need for adequate income maintenance among those who cannot be brought within the full employment policy" (Sec. 207 (a)). Given the last part of the quoted

section, it is unclear how far the Act wishes to go in substituting work for welfare--for those who do not already mix the two.

To this writer, these provisions of S-50 bring to mind the Family Assistance Plan-Opportunities for Families Program component of the Nixon Administration welfare reform proposal. That proposal, it will be recalled, would have given the Labor Department responsibility for any "employable" welfare recipient, while HEW would maintain the transfer payments system. If the likely problems of the FAP/OFP employability-determination job provision system are any guide, the income maintenance provisions of S-50 are in need of rethinking. For example, do we really wish to compel mothers of young children to work? Are we prepared to make the requisite day care facilities available? Given the job queue priorities mentioned above, welfare recipients would appear at the front of the queue. How is this justified? Perhaps most importantly, provisions such as this will run a serious risk of degenerating into simple work relief until there is greater certainty that we possess the knowledge to create large numbers of reasonably decent jobs for relatively unskilled persons. In a work relief system the welfare check is frequently divided by the eighty hours a welfare recipient is required to work at make-work and is referred to as a wage. Little attention is given to job development and very little is done to upgrade labor market skills. Thus, the conditions that placed the person on welfare remain unchanged. To be sure, "integration of employment and income maintenance" need not end up thus, but today that result is likely. Perhaps experiments with creative ideas such as "supported

work" will show the way. We can all hope so, but until we have more to go on than our desire that welfare recipients be employed, the risk is all borne by the welfare recipient.

The income maintenance program that most needs integration with employment programs is Unemployment Insurance. That program is somewhat ambiguously mentioned in other sections, but is curiously ignored in the consideration of income maintenance.

Labor Standards

Two of the Act's most important provisions appear in the usually innocuous labor standards section. First, programs implemented pursuant to the Act are required to create a net increase in employment. Clearly no piece of public employment legislation could ignore the so-called displacement problem wherein federal job creation funds substitute for (i.e., displace) state and local funds. Similarly, public funds can replace private funds, depending on the nature of the project. Estimates based upon recent public employment program experience, as well as other studies, suggest that in the short run, (first year, say) each $2 of federal money creates only $1 worth of jobs. Over a longer period the displacement appears to be greater. Unfortunately, while displacement may not be inevitable, the regulation that can prevent it has yet to be written. An implication of these estimates (even if they are viewed as upper bounds) is that public job creation via federal subsidy for service-type jobs may have short-term, counter-cyclical utility but is unlikely to be a viable long-term tool. A potential solution to this problem lies in a redirection from public

service employment--which basically produces services similar to what governments normally supply--to goods producing projects. This tack is not without difficulty as it could result in the displacement of private sector output and employment.

The other important provision in the labor standards section provides that those employed under the Act's provisions shall not be paid less than the federal minimum wage (currently $2.30 per hour), state or local minimum wage, or other prevailing rate for nonprofit employers, whichever is greater. Thus, the federal minimum wage, or higher, could become an effective floor on the American wage structure. While it is true that some of the 11 million workers currently earning less than the minimum wage would prefer their current jobs, it is difficult to see how the government can require people to search for and accept jobs that pay less than those provided by the Full Employment Office. Thus the wage provision of S-50 would itself be inflationary. Additionally, there appears to be little justification for attaching public employment wage standards to the Davis-Bacon Act, as Sec. 402(D) appears to do for at least some fraction of jobs created under the Act.

It should be recalled that Chairman Burns' proposal for public job creation anticipated a wage "somewhat below" the federal minimum wage. If Mr. Burns means, say, 3/4 of the minimum ($1.73), the difference is fifty-seven cents--no small amount at the earnings level. Thus, we can expect, and should welcome, some debate on the appropriate public employment wage level since it will in large part determine the size of the public employment program and its inflationary potential as well as the levels of living available to participants.

Summary and Evaluation

The Full Employment and Balanced Growth Act of 1976 is an attempt to focus the nation's attention and energy on the problem of attaining full employment. To that end it would establish a framework in which the full employment goal would be central. As a matter of law the nation would be committed to achieving an adult unemployment rate of 3 percent within four years, something we have not done since 1953, although we came quite close in 1968 and 1969. Actually it may be better to say that S-50 commits the nation to reach for full employment, for nothing in the Act insures its achievement, the "law" notwithstanding.

If those charged with the development and implementation of fiscal and monetary policy--the President, the House and Senate Budget Committees, and the Federal Reserve Board--did not think the full employment goal feasible or wise, they would have to say so, explain why, and develop ameliorative measures. Recognizing that wishing full employment will not suffice, the Act provides for micro-employment programs and for policies that would hopefully allow the application of greater monetary and fiscal stimulus with less inflation. All else failing to achieve the 3 percent unemployment rate target, S-50 provides for public job creation, presumably on a large scale if need be.

S-50 does not deal with the nitty-gritty issue of why we face the high unemployment dilemma to begin with. Nor does it provide a convincing mechanism for dealing with the inflation that could result from its own

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provisions. Doing so comprises a first priority as S-50 continues its evolution.

It may be objected that this analysis relies too heavily on the conventional wisdom regarding economic policy and in particular the inflation-unemployment trade-off. This may be true, but so does S-50. The Full Employment and Balanced Growth Act of 1976 tries simply to do a great deal better within the framework of the conventional wisdom. After all is said and done, what is the alternative wisdom?

It is difficult to predict what would happen if S-50 were to be enacted in its current form. It is possible that in answering the difficult questions about why we cannot achieve full employment we would learn a great deal. It is also possible that a sincere implementation would result in economic problems worse than those at present. In forcing us to debate these issues, S-50 provides an opportunity that we ought not pass up. It is time to be explicit about both the benefits and the costs of full employment. Hopefully, as this debate proceeds, the needed changes in S-50 can be attended to.

Notes

[1] Cyclically, the BLS rate and the other two move in virtual lock-step, although the differences between the BLS rate and the others has grown steadily since 1947, which is simply confirmation of the oft noted changes in labor force composition. The relationships are as follows:

$$U_{BLS} = .329 + .996\ U_{18+}\ ,\ R^2 = .969$$

$$U_{BLS} = .678 + 1.00005U_{20+}\ ,\ R^2 = .929$$

and

	1947	1958	1964	1970	1974
$U_{BLS} - U_{18+}$	.2	.3	.5	.4	.6
$U_{BLS} - U_{20+}$	.5	.6	.9	.9	1.1
U_{BLS}	3.9	6.8	4.5	4.9	5.6
U_{18+}	3.7	6.5	4.1	4.5	5.0
U_{20+}	3.4	6.2	3.6	4.0	4.5

Where U is the unemployment rate of the appropriate group; BLS = official rate; 18+ excludes 16 and 17 year olds and 20+ excludes 16-19 year olds from official unemployment rate.